ORIGINAL

0000073640

BEFORE THE ARIZONA CORPORATION COMMISSION

MIKE GLEASON
CHAIRMAN
WILLIAM A. MUNDELL
COMMISSIONER
JEFF HATCH-MILLER
COMMISSIONER
KRISTIN K. MAYES
COMMISSIONER
GARY PIERCE
COMMISSIONER

IN THE MATTER OF THE APPLICATION OF UNS GAS, INC. FOR THE ESTABLISHMENT OF JUST AND REASONABLE RATES AND CHARGES DESIGNED TO REALIZE A REASONABLE RATE OF RETURN ON THE FAIR VALUE OF THE PROPERTIES OF UNS GAS, INC. DEVOTED TO ITS OPERATIONS THROUGHOUT THE STATE OF ARIZONA.	Docket No. G-04204A-06-0463
IN THE MATTER OF THE APPLICATION OF UNS GAS, INC. TO REVIEW AND REVISE ITS PURCHASED GAS ADJUSTOR.	Docket No. G-04204A-06-0013
IN THE MATTER OF THE INQUIRY INTO THE PRUDENCE OF THE GAS PROCUREMENT PRACTICES OF UNS GAS, INC.	Docket No. G-04204A-05-0831

NOTICE OF FILING

The Residential Utility Consumer Office ("RUCO") hereby files its initial closing brief on the above-captioned matter. RUCO's final schedules reflecting its position are being filed simultaneously under separate cover.

RESPECTFULLY SUBMITTED this 5th day of June 2007.

Scott S. Wakefield
Chief Counsel

AN ORIGINAL AND SEVENTEEN COPIES of the foregoing filed this 5th day of June 2007 with:

Docket Control
Arizona Corporation Commission
1200 West Washington
Phoenix, Arizona 85007

COPIES of the foregoing hand delivered/ mailed this 5th day of June 2007 to:

Lyn Farmer
Chief Administrative Law Judge
Hearing Division
Arizona Corporation Commission
1200 West Washington
Phoenix, Arizona 85007

Christopher Kempley, Chief Counsel
Legal Division
Arizona Corporation Commission
1200 West Washington
Phoenix, Arizona 85007

Ernest Johnson, Director
Utilities Division
Arizona Corporation Commission
1200 West Washington
Phoenix, Arizona 85007

Michael W. Patten, Esq.
Roshka, DeWulf & Patten, PLC
400 East Van Buren Street
Suite 800
Phoenix, Arizona 85004

Raymond S. Heyman
Michelle Livengood
UniSource Energy Services
One South Church Avenue
Tucson, Arizona 85701

Cynthia Zwick
Executive Director
Arizona Community Action Association
2700 N. 3rd Street, Suite 3040
Phoenix, Arizona 85004

Marshall Magruder
P. O. Box 1267
Tubac, AZ 85646

By Ernestine Gamble
Ernestine Gamble
Secretary to Scott Wakefield

INITIAL CLOSING BRIEF

OF

THE RESIDENTIAL UTILITY CONSUMER OFFICE (RUCO)

JUNE 5, 2007

UNS GAS RATE CASE
G-04204A-06-0463 et al.

BACKGROUND

In 2002, Citizens Communications Company ("Citizens") filed a rate application for its Arizona Gas Division, based on a test year ending December 31, 2001. While that application was pending, Citizens agreed to sell its Arizona gas and electric operations to Unisource Energy Corporation ("Unisource"). The gas rate application was consolidated with the application for approval of the sale of assets. The joint applicants and the Arizona Corporation Commission ("Commission") Utilities Division ("Staff") reached a settlement. The Commission approved the non-unanimous settlement agreement in Decision No. 66028 (July 3, 2003). As part of the settlement agreement, Unisource agreed to "permanently credit customers" for negative acquisition adjustments for both the gas and electric operations.[1] Citizens' sale of the gas and electric assets to Unisource was completed on August 11, 2003, and the gas operations became known as UNS Gas, Inc. ("UNSG" or "Company"). The rates approved as a result of Decision No. 66028 are UNSG's current rates.

I. Resolved Issues

RUCO and the Company have reached agreement on several issues that were originally in dispute. Those agreements are:

- Corporate Cost Allocations – UNSG has agreed with RUCO's adjustment to remove additional test year merger-related expenses that the Company's original adjustment overlooked.[2]

---

[1] Decision No. 66028 at 15.
[2] Exh. RUCO-5 at 16-17 (Diaz Cortez direct); Exh. RUCO-6 at 13 (Diaz Cortez surrebuttal).

- Bad Debts/Uncollectibles – Conceptually, RUCO agrees with the Company on the approach to calculate bad debts/uncollectibles, but RUCO doesn't have the data to compute the right number.[3]
- Workers' Compensation – The Company has agreed with RUCO's adjustment to worker's compensation expense.[4]
- AGA Dues - The Company accepted RUCO's adjustment to decrease expenses for dues paid to the American Gas Association by $1,523.[5]

II. Contested Rate Base Issues

A. Plant-In-Service and Accumulated Depreciation Balances at Date of Acquisition From Citizens

As would be expected, the Company's application included additional plant investments since the end of the test year in the last rate case (December 31, 2001). The Company was able to substantiate all of the increase in plant balances that occurred between the date it acquired the operations from Citizens and the end of the test year in this case (December 31, 2005). However, UNSG was unable to provide records to substantiate the existence of over $3 million of plant that it claims Citizens invested between December 31, 2001 and August 11, 2003, the date it acquired the operations from Citizens.[6] Further, the Company could not substantiate the full amount of depreciation that it claimed Citizens had accrued during that period.

---

[3] Exh. RUCO-6 at 13 (Diaz Cortez surrebuttal).
[4] Exh. UNSG-13 at 26 (Dukes rebuttal).
[5] *Id.* at 35; Exh. RUCO-3 at 29 (Moore direct).
[6] Exh. RUCO-3 at 10 (Moore direct).

Citizens' gas plant in service at the end of 2001 was $234,203,129.[7] UNSG had records to substantiate $10,696,251 of additional plant in service between the end of 2001 and June 30, 2003.[8] UNSG had no other records to substantiate the plant additions prior to the August 11, 2003 transfer of assets to the Company. Thus, UNSG could substantiate only $244,899,380 of plant as of the date of the transfer.[9] However, UNSG's accounting entry on August 11, 2003 booked $248,032,644 in plant in service that it had acquired from Citizens.[10] UNSG claimed that certain electronic files it received from Citizens provided a full accounting for the $248 million plant in service entry.[11] However, UNSG's witness conceded that one could not reconcile the entire $248 million figure from the electronic file.[12] The Company also claims that the amounts of plant in service and depreciation that it booked on August 11, 2003 are appropriate because they were approved by the Federal Energy Regulatory Commission ("FERC"). However, FERC makes no attempt to confirm the dollar amounts of the transaction the Company proposed, but is merely concerned that the transaction is recorded to the appropriate FERC accounts.[13] An adjustment decreasing the plant in service balance of $3,133,264 is therefore appropriate.

The Company was likewise unable to substantiate the accumulated depreciation balance it claimed as of December 31, 2003.[14] RUCO computed an adjustment to

---

[7] Exh. UNSG-8 at 2 (Kissinger rejoinder).
[8] Exh. RUCO-1 and Tr. at 195 (Kissinger).
[9] *See* Tr. at 196-97 (Kissinger).
[10] Tr. at 192-93 (Kissinger).
[11] Tr. at 194-95 (Kissinger).
[12] Tr. at 214 (Kissinger).
[13] Tr. at 198 (Kissinger).
[14] Exh. RUCO-3 at 12 (Moore direct); Tr. at 198-200 (Kissinger).

accumulated depreciation based on applying the then-approved[15] depreciation rates to plant balances from the last rate case and the substantiated plant additions and retirements in the current application. The necessary adjustment is to increase accumulated depreciation by $3,857,413.[16]

B. Depreciation and Amortization Rates in Effect Since Last Rate Proceeding

The Commission established new depreciation and amortization rates for Citizens' Arizona Gas Division in Decision No. 58664 (June 16, 1994). Citizens proposed revised depreciation and amortization rates in its 2002 gas rate application.[17] That application was resolved in the settlement agreement approved in Decision No. 66028. Neither the settlement agreement nor Decision No. 66028 make any reference to adopting new depreciation or amortization rates. Thus, the depreciation rates that have been in effect since UNSG acquired the gas operations are the rates authorized by Decision No. 58664.

The Company's application includes accumulated deprecation balances computed based on the erroneous conclusion that the Commission had approved new depreciation and amortization rates in Decision No. 66028.[18] Likewise, the Company has amortized the negative acquisition adjustment it booked as a result of the settlement agreement based on an amortization rate that Citizens had requested in its

[15] The Company claims that the Commission authorized new depreciation rates in Decision No. 66028. RUCO disputes that contention, as discussed below. Regardless, the depreciation rates that were in effect during the period between January 1, 2002 and August 11, 2003 would not have been affected.

[16] Exh. RUCO-3 at 12 (Moore direct).

[17] *Id.* at 13.

[18] *Id.*

2002 rate application, rather than the amortization rate authorized by Decision No. 58664.[19] The Commission's rules provide that changes to depreciation rates are not effective until authorized by the Commission.[20] Decision No. 66028's approval of a non-unanimous settlement agreement's revenue requirement is not approval of any particular ratemaking treatment on any issue, including depreciation and amortization rates. The terms of the settlement agreement were specifically stated in the agreement. Nowhere in the settlement agreement or in the Commission's order approving it is there any indication that the agreement is based on the depreciation or amortization expense that would result from the application of Citizens' proposed depreciation rates. Depreciation and amortization rates are simply not addressed in the settlement agreement or Decision No. 66028, and thus remain unchanged by that Decision. RUCO's adjustments of ($2,855,454) to accumulated depreciation[21] and ($248,887) to accumulated amortization[22] are based on continued application of depreciation and amortization rates as approved by the Commission in Decision No. 58664.

---

19 Exh. RUCO-5 at 7 (Diaz Cortez direct).
20 A.A.C. R14-2-102(C)(4).
21 Exh. RUCO-3 at 14 (Moore direct).
22 Exh. RUCO-5 at 7 (Diaz Cortez direct).

C. Construction Work in Progress

The Company has included over $7 million of construction work in progress ("CWIP") in its proposed rate base.[23] By definition, the CWIP is plant that was not in service at the end of the test year.[24]

Regulators routinely exclude CWIP from rate base because it does not meet the used and useful ratemaking standard, which requires that assets actually be in service and providing a benefit to ratepayers before they are included in rates.[25]

Recovery of CWIP in rate base is not accepted rate making in Arizona, and has been authorized by this Commission only in extraordinary circumstances.[26] The Company agrees that CWIP is not normally included in rate base, and that a utility should be required to show extraordinary circumstances in order to receive such treatment.[27] The Company nonetheless claims that recognition of CWIP in rate base is warranted for it to maintain its financial integrity, to fund rapid growth, to mitigate regulatory lag, to prolong the time between rate cases, and to make up for its large negative acquisition adjustment.[28]

Rate base treatment of CWIP would not change a utility's level of earnings, but merely would impact the timing of earnings recovery.[29] Recovery of earnings on the CWIP balances for the period before they become used and useful, and thus eligible for rate base recovery, is accomplished through an Allowance for Funds Used During Construction ("AFUDC"). Utility accounting permits the utility to accrue interest, in the

23 Exh. UNSG-27 at 27 (Grant direct).
24 *See* Exh. S-25 at 9 (R. Smith direct).
25 Exh. RUCO-5 at 8 (Diaz Cortez direct).
26 Exh. RUCO-6 at 7 (Diaz Cortez surrebuttal).
27 Exh. UNSG-29 at 4 (Grant rejoinder).
28 Exh. UNSG-27 at 27-28 (Grant direct).
29 Exh. RUCO-5 at 8 (Diaz Cortez direct).

form of AFUDC, on the CWIP balances.[30] These interest accruals are ultimately recovered over the life of the asset through depreciation expense, once the asset enters service.[31]

The Company's argument that CWIP in rate base is necessary to maintain financial integrity is without merit. Other than in extraordinary circumstances, the Commission has not allowed CWIP in rate base, and Arizona utilities have not lost their financial integrity as a result.[32] Likewise, the Company's growth argument is without merit. Growth has a positive effect on the Company, generating more revenue and cash flow.[33] Regulatory lag has always been a characteristic of rate of return regulation.[34] It does not suddenly create a need to include CWIP in rate base. Further, regulatory lag provides both benefits and burdens to a utility. Plant retirements, accumulated depreciation and expired amortizations are examples of the beneficial aspects of regulatory lag. In each of these instances, a company continues to earn a return on and recovery of assets that have already been recovered.[35]

The Company's argument that CWIP in rate base will lengthen the period of time between rate cases is also without merit. The Company currently is not recovering CWIP in its rate base, yet it was able to agree to a moratorium on increased rates.[36] Likewise, other Arizona utilities, none of which recover CWIP in rate base, are not filing

---

[30] *Id.*
[31] *Id.*
[32] *Id.* at 9.
[33] *Id.*
[34] *Id.*
[35] *Id.*
[36] *Id.* at 10.

back-to-back rate cases.[37] Further, the Commission generally favors, rather than disapproves of, utilities coming in for regular rate reviews.[38]

The fact that the Company agreed to a negative acquisition adjustment when it acquired Citizens' properties is also no justification for including CWIP in rates at this time. At the time of the settlement agreement, the Company touted the negative acquisition adjustment as an attractive feature of the agreement that would provide substantial benefits to ratepayers.[39] Including CWIP in rate base now because of the negative acquisition adjustment would erode the value that the negative acquisition adjustment was meant to provide customers.

The Company contends that if CWIP is excluded from rate base, using the Contributions in Aid of Construction ("CIAC") related to the CWIP projects as an offset to rate base would create a mismatch.[40] But it is the Commission's historic practice to include all CIAC as an offset to rate base, and the Commission has not declared such a practice to create an inappropriate mismatch.[41] To the contrary, it is the Company's request that creates an improper mismatch, because it includes the CWIP in rate base but does not include the revenue that will be generated by the CWIP plant in the ratemaking equation. Over 70 percent of the CWIP requested for inclusion in rate base is related to mains, services and meters that would serve new customers that did not exist at the end of the test year.[42] The Company's application does not reflect any

---

37 *Id.*
38 *Id.*
39 *Id.*
40 Exh. UNSG-28 at 15 (Grant rebuttal).
41 Exh. RUCO-6 at 8 (Diaz Cortez surrebuttal).
42 Exh. UNSG-38. Exh. RUCO-9 reflects that the total is approximately 86% of the CWIP balance.

additional revenues that UNSG will receive from these new customers.[43] Including the additional plant to serve those customers in rate base, without including the corresponding additional revenues those customers would generate, creates a mismatch in the time periods used to compute rate base and operating income.

D. Global Information System Regulatory Asset

The Company's application sought to include in rate base nearly $900,000 of costs it had previously expensed for a Global Information System ("GIS") project. The costs of the GIS were previously expensed, and there is no basis to permit them to be recovered as capital investments.

Primarily during 2003 and 2004 (before the test year), the Company spent $897,068 on a GIS project.[44] Generally Accepted Accounting Principles ("GAAP") requires that the costs of the GIS project be booked as expenses.[45] However, during 2003 and 2004, the Company mistakenly booked the costs of the GIS as capital costs.[46] During the test year the Company discovered its error and corrected it by expensing the costs to its income statement.[47] The Company did not seek an accounting order at the time the costs were incurred to obtain the Commission's authorization to recognize a regulatory asset for possible later inclusion in rate base.[48] In the absence of a Commission-authorized accounting order, the Company is required to expense these costs on its income statement, and cannot include them in its rate base for earning a

---

43 Tr. at 953 (Grant).
44 Tr. at 221 (Dukes).
45 *Id.*; Exh. RUCO-5 at 11 (Diaz Cortez direct).
46 Tr. at 221 (Dukes).
47 Exh. RUCO-5 at 11 (Diaz Cortez direct); Tr. at 221 (Dukes).
48 Exh. RUCO-5 at 12 (Diaz Cortez direct); Tr. at 222 (Dukes).

return.[49] Thus, RUCO's adjustment to remove them from rate base should be approved.

E. Working Capital

RUCO agrees with the Company's methodology to compute its working capital requirement. However, the different levels of expense recommendations between the Company and RUCO result in different working capital calculations. Further, in discovery the Company identified an error in test year level of revenue taxes and assessments relating to working capital.[50] The Company acknowledged the need to correct the error in its rebuttal testimony.[51]

III. Operating Income Issues

A. Customer Annualization

The Company's application included a calculation that it purports annualizes revenues to correspond to the test year-end level of customers. However, the Company's revenue annualization methodology, which uses growth percentages instead of absolute bill counts, understates the revenue attributable to growth.

The Commission's accepted methodology for a customer annualization adjustment is to compare the customer counts in each month of the test year to the test year-end level of customers, and then multiply the additional customers added in each

---

[49] Exh. RUCO-5 at 11 (Diaz Cortez direct).
[50] *Id.* at 13.
[51] Exh. UNSG-13 at Exh. DJD-1, pg. 1 (Dukes rebuttal).

month by the average revenue for that month.[52] The sum of these monthly additional revenue calculations is the additional revenue attributable to the additional customers.[53] Both Staff and RUCO are advocating the use of the traditional method in this proceeding.[54]

The Company claims that, due to the seasonal characteristics of its customer base, the traditional annualization method is inappropriate and that its alternative method to compute the annualization is necessary.[55] However, the Company's customer levels, while somewhat seasonal, do not demonstrate a degree of seasonality that makes the Commission's traditional annualization method inappropriate. Further, applying the traditional annualization method to the test year chosen by the Company, ending in December 2005, does not demonstrate an aberrational result.[56]

The customer base for the Company's largest rate schedule, Residential Rate 10', increased from month to month during the test year for every month except April, May and July.[57] The decreases in those three months range from 9/100ths of a percent to 1/3rd of a percent.[58] This is hardly an extreme level of seasonality, and is not a sufficient basis to depart from the Commission's traditionally-applied methodology of revenue annualization. Further, it is not necessary for test-year growth to be even and constant over the test year for the traditional method to be suitable.[59]

52 Exh. RUCO-5 at 15 (Diaz Cortez direct).
53 *Id.*
54 *Id.* at 15-16; Exh. S-27 at 20 (R. Smith surrebuttal).
55 Exh. UNSG-19 at 6-7 (Erdwurm rebuttal).
56 Tr. at 474 (Erdwurm).
57 Exh. RUCO-6 at 12 and at surrebuttal schedule MDC-1 (Diaz Cortez surrebuttal).
58 *Id.*
59 Exh. S-27 at 21 (R. Smith surrebuttal).

B. Weather Normalization

RUCO accepts the Company's proposed weather normalization, and proposes a further adjustment of $900 related to the additional customers/revenue it proposes be recognized as a result of its customer annualization adjustment.[60]

C. GIS Expense

As discussed above, RUCO opposes the Company's request to create a regulatory asset for the GIS costs that the Company expensed during the test year. Correspondingly, RUCO opposes the Company's pro-forma expense of $299,023 for amortization of the regulatory asset over a three-year period.[61] The Company expensed the costs in the TY, and had net income of over $10.5 million that year; thus, it has recovered the cost of the GIS project in the TY.[62] Recognizing a regulatory asset and then amortizing these expenses would result in double recovery.

D. Fleet Fuel Expenses

The Company has proposed an adjustment to annualize its fuel expense to reflect the additional employees it has included its payroll annualization adjustment. RUCO agrees that, conceptually, an adjustment is necessary to match fuel expense with the increased payroll expense. However, RUCO disagrees with the particulars of the Company's adjustment.

---

[60] Exh. RUCO-5 at 16 (Diaz Cortez direct).
[61] *Id.* at 13.
[62] *Id.* at 14.

The Company's adjustment was based on the average fuel prices during the first few months of 2006. However, gasoline prices in early 2006 were abnormally high, and thus the Company's calculation inflates the annualized level of fuel expenses.[63] Further, the Company understated the average miles per gallon that its fleet achieves.[64] UNSG agreed to modify its adjustment based on a cost per gallon of $2.48.[65] RUCO's adjustment was based on a cost of $2.43 per gallon.[66] About a third of RUCO's $67,502 adjustment is attributable to the miles-per-gallon calculation.[67] The Company did not address this aspect of RUCO's adjustment in its testimony.[68] RUCO's adjustment to both the cost per gallon, and the miles per gallon is necessary to reflect an appropriate level of fleet fuel expenses.

E. CWIP Property Taxes

As discussed above, RUCO opposes the Company's request to include CWIP in rate base. Likewise, the property tax expense attributable to the CWIP balances should not be included in recoverable operating expenses.[69] RUCO's adjustment removes the Company's proforma CWIP property taxes of $166,884 from test year expenses.[70]

---

63 *Id.* at 15.
64 *Id.*
65 Exh. UNSG-13 at 23 (Dukes rebuttal).
66 Tr. at 241 (Dukes).
67 Tr. at 241-42 (Dukes).
68 Tr. at 242 (Dukes).
69 Exh. RUCO-5 at 19 (Diaz Cortez direct).
70 *Id.*

F. Legal Expenses

The Company's test year legal expense included costs related to the settlement of El Paso Natural Gas Company's ("El Paso") rate case at FERC. That case has been settled.[71] RUCO and Staff both proposed adjustments. The Company proposed an alternate adjustment, based on the average legal expenses of 2004 and 2005.[72] RUCO objects to the Company's alternate adjustment, as it fails to recognize that the legal expenses related to the El Paso settlement are both non-recurring and extraordinary in their magnitude.[73]

During the test year, the Company incurred 46 invoices for outside legal services. Of those, seven invoices were related to the El Paso settlement.[74] The average cost of those seven invoices was $44,436, whereas the average cost of the other 39 invoices was $5,292.[75] The El Paso-related legal expenses represented 60 percent of the total test year legal expenses,[76] 69 percent of the 2004 legal expenses,[77] and 92 percent of 2006 legal expenses.[78] Thus, the El Paso expenses were much larger than the routine or recurring legal expenses. Therefore, a two-year average of legal expense when both years include the costs of the El Paso settlement (as the Company now proposes), is not an appropriate level of legal expense for which recovery should be allowed.

RUCO's proposed disallowance is a superior adjustment to the Company's. Despite the fact that the El Paso settlement legal expenses are extraordinary and non-

---

71 Exh. S-25 at 30 (R. Smith direct); Tr. at 1135 (Gray)
72 Exh. UNSG-13 at 18 (Dukes rebuttal).
73 Exh. RUCO-6 at 15 (Diaz Cortez surrebuttal).
74 *Id.*
75 *Id.*
76 Exh. RUCO-6 at Schedule MDC-2, pg. 2 (Diaz Cortez surrebuttal).
77 Tr. at 292 (Dukes); Exh. RUCO-2 at 4-6.
78 Tr. at 292 (Dukes); Exh. RUCO-2 at 2-3.

recurring, RUCO has only removed those invoices that exceeded $20,000. Therefore, the test year, after RUCO's adjustment, still contains over $75,000 of legal expenses associated with the FERC proceeding.[79] This results in a more appropriate level of likely recurring legal expenses to include in rates.

G. Incentive Compensation

The Company's non-union employees participate in its parent company's Performance Enhancement Plan ("PEP") under which they are entitled to receive incentive compensation after meeting certain performance goals, including certain financial goals.[80] In test year 2005, Unisource did not meet the PEP financial goals, and no PEP payments were made. However, the Board of Directors authorized payment of a Special Recognition Award ("SRA") to the PEP-eligible employees. The 2005 SRA was less than the PEP payment in 2004. The Company proposes to recover the average of the 2004 PEP award and the 2005 SRA in its rates.

RUCO opposes recovery of the incentive compensation. Ratepayers should not be burdened with the cost of the Board's arbitrary decision to authorize the SRA when the employees did not meet the plan's 2005 financial performance goal.[81] The SRA award is unique and does not meet the criteria of a typical and recurring test-year expense.[82] Further, 60 percent of the PEP bonus is directly related to financial

---

[79] Exh. RUCO-6 at 16 (Diaz Cortez surrebuttal).
[80] Exh. RUCO-3 at 16 (Moore direct).
[81] *Id.* at 16-17.
[82] *Id.* at 17.

performance and operational cost containment, goals of which shareholders are the beneficiaries.[83]

Additionally, it is not clear that the PEP is necessary to achieve the PEP's goals. The PEP does not apply to the 60 percent of the Company's employees that are members of the union.[84] If the Company believes its workforce has a sufficient incentive to achieve its financial performance goal, operational cost containment target, and customer service objectives, despite the fact that the PEP program only applies to 40 percent of the workforce, the necessity of the PEP is highly suspect.[85]

H. Test-year Depreciation Expense

RUCO agrees with the new depreciation rates that UNSG is proposing to implement on a going-forward basis. However, due to RUCO's disagreement over the underlying net asset values (related to RUCO's rate base depreciation and CWIP adjustments), there is a disagreement over the appropriate test year depreciation expense level.[86]

I. Postage Expense

Initially, RUCO disagreed with the Company's claim of what its test-year postage expense was. RUCO subsequently agreed that the level of test-year postage expense of $445,171.[87] However, RUCO and the Company disagree over what

83 *Id.*
84 Exh. RUCO-4 at 8 (Moore surrebuttal).
85 *Id.*
86 Exh. RUCO-3 at 18-19 (Moore direct).
87 Exh. RUCO-4 at 9 (Moore surrebuttal).

adjustment is necessary to the test year amount. RUCO proposes an adjustment based on the end-of-test-year customer levels, and a post-test-year known and measurable increase in postal rates.[88] This would result in an adjusted postage expense of $477,530.[89] The Company proposes an adjustment based on a two-year average of postage expense (adjusted for a postage rate increase), resulting in a total postage expense of $529,380.[90] RUCO's adjustment is based on the use of the historic test year levels, annualized for increases in customer levels and adjusted for a known and measurable increase in postal rates. There is no reason to consider postage expense outside the test year (except for RUCO's two proposed adjustments) in computing recoverable postage expense.

J. Customer Service Costs

During the test year, UNSG changed the way it provided customer service for its customers. Prior to May 1, 2005, UNSG operated its call center in-house, employing six Customer Service Representatives at a cost of approximately $17,636 per month.[91] After May 1, 2005, Unisource consolidated the call center operations of UNSG and its other utility affiliates. UNSG subsequently closed four of its walk-in offices.[92] For the final eight months of the test year, UNSG's allocated costs of the consolidated call center was $76,227 per month, an increase of 432 percent per month.[93]

---

[88] Exh. RUCO-3 at 19 (Moore direct);
[89] Exh. RUCO-4 at Schedule Surr. RLM-9 (Moore surrebuttal).
[90] Exh. UNSG-13 at 28 (Dukes rebuttal); Exh. UNSG-12 at 10 (Dukes direct).
[91] Exh. RUCO-3 at 20 (Moore direct).
[92] Tr. at 417 (G. Smith).
[93] Exh. RUCO-3 at 20 (Moore direct).

The duties of the consolidated call center's representatives are similar to those that were provided by UNSG's in-house representatives.[94] While UNSG claims that the consolidated call center provides increased service to its customers,[95] customer dissatisfaction with the consolidated call center is apparent from the level of complaints filed with the Commission. In 2004, prior to consolidation, 13 percent of the 178 complaints against UNSG related to the quality of customer service.[96] In 2005, the year the call center was consolidated, the percentage increased to 22 percent of the 172 complaints against the Company.[97] In 2006, the level remained at 17 percent of the 143 complaints.[98]

An increase in costs of 432 percent, for a level of customer service that is worse than that provided before the move to the consolidated call center, is not reasonable. RUCO therefore proposes that customer service costs be recovered at the same level the Company previously incurred to provide customer service through in-house personnel.

K. Unnecessary Expenses

RUCO decreased test year expenses by $233,347 for inappropriate or unnecessary expenses, such as payments to chambers of commerce, non-profit organizations, donations, club memberships, gifts, awards, extravagant corporate events, advertising, and for various meals, lodging and refreshments.[99] The Company

---

94 *Id.*
95 Exh. UNSG-13 at 29 (Dukes rebuttal).
96 Exh. RUCO-4 at 11 (Moore surrebuttal), as corrected at Tr. at 614-15.
97 *Id.*
98 *Id.*
99 Exh. RUCO-3 at 22-23 (Moore Direct).

responded by stating that "[m]ost of the recommended amounts for disallowance refer to expenses incurred performing regulatory-mandated functions such as leak surveys, safety audits and training."[100]

The utility has the burden of proving the reasonableness of all of the various expenses for which it seeks recovery.[101] RUCO has identified with particularity every individual payment which it questions is necessary.[102] While the Company's responsive testimony describes a few general categories of expenses that it believes are appropriate for recovery,[103] it has by and large not addressed RUCO's proposed disallowance in any detail. The Company further claims that it has procedures to insure that all expenses are reviewed by supervisors.[104] However, the Company's mere avowal that expenses are prudent and necessary to provide gas service is not sufficient to satisfy its burden of proof.

L. Property Tax Computation

RUCO uses the same methodology as the Company to compute property tax, but differs regarding two of the inputs. First, RUCO uses a different net plant in service, corresponding to its above-described adjustments to plant. Further, RUCO based its property tax calculation on a 24 percent assessment ratio, which is the ratio that will be in effect during 2007, when new rates are expected to go in effect. The assessment ratio will continue to decease by one-half of one percent each year until it reaches 20

100 Exh. UNSG-16 at 5 (G. Smith rebuttal).
101 Decision No. 68487 at 21.
102 Exh. RUCO-3 at Schedule RLM-11 and attached workpapers (Moore direct).
103 Exh. UNSG-16 at 5 (G. Smith rebuttal).
104 Exh. UNSG-13 at 32 (Dukes rebuttal).

percent in 2014.[105] While the Company addressed the net plant in service levels in response to each of RUCO's proposed adjustments to plant, the Company offered no response to RUCO's proposal to utilize a 24 percent assessment ratio. RUCO therefore believes that the Company has conceded to this portion of RUCO's adjustment.

M. Rate Case Expense

The Company originally requested rate case expense of $600,000, to be amortized over 3 years. In its rebuttal case, the Company amended its request to $900,000, based on its claim that it had already incurred nearly $800,000 in rate case expense by February 2007.[106] RUCO recommends recovery of $251,000, amortized over three years.[107]

Southwest Gas' recent rate case was approved to recover $235,000 in rate case expenses.[108] This case has similar characteristics to the Southwest Gas filing, with a majority of each application process being performed by in-house staff and both utilities requesting a fundamental shift in the ratemaking principles of decoupling revenue from customer usage and extensive revisions to the PGA mechanism.[109] Southwest Gas' hearing lasted six days;[110] the hearing in this matter lasted seven. UNSG's more than three-fold increase in rate case expense above Southwest Gas' recent level is unreasonable and should be rejected. Instead, the Commission should approve a rate

[105] Exh. RUCO-3 at 24 (Moore direct).
[106] Exh. UNSG-13 at 34-35 (Dukes rebuttal).
[107] Exh. RUCO-3 at 26 (Moore direct).
[108] *Id.* at 25.
[109] *Id.*
[110] Tr. at 655 (Moore).

case expense of the amount authorized for Southwest Gas, adjusted for inflation (resulting in $251,000).[111]

N. Non-recurring Union Training

RUCO proposes to remove the test year expense of $2,584 related to a one-time training to acquaint Company personnel with working in a unionized environment.[112] The Company agrees that the MARC training was a one-time event.[113] RUCO has not disallowed all training expense, but only the costs of this one non-recurring training.[114] As the training is non-recurring, it should not be included in rate recovery going forward.

O. Supplemental Employee Retirement Plan

The Company's application included $93,075 for the cost of a supplemental retirement program for a small, select group of high-ranking officers.[115] The officers who receive the Supplemental Executive Retirement Plan ("SERP") benefit also participate in the Company's regular retirement plan, and receive a wide array of other benefits, including a medical plan, dental plan, life insurance, long term disability and paid absence time.[116]

The Commission recently disallowed SERP expenses for Southwest Gas in Decision No. 68487. The Commission should similarly disallow those expenses here.

---

[111] Exh. RUCO-3 at 25 (Moore direct).
[112] *Id.* at 30; Exh. RUCO-4 at 16 (Moore surrebuttal).
[113] Tr. at 417 (G. Smith).
[114] Tr. at 416 (G. Smith).
[115] Exh. RUCO-3 at 31 (Moore direct).
[116] *Id.*

The cost of supplemental benefits for high-ranking officers is not a necessary cost of providing gas service.

P. Income Tax Calculation

RUCO's recommended income tax expense relies on the same methodology as the Company used, but reflects RUCO's recommended revenue and expense levels.[117]

IV. Cost of Capital

A. Capital Structure

The Company's actual capital structure at the end of the test year was comprised of approximately 55 percent debt and 45 percent common equity.[118] The Company is proposing the use of a 50-50 hypothetical capital structure, in part as a consideration of the necessity for large capital expenditures on a going forward basis.[119] RUCO agrees with the use of a 50-50 hypothetical capital structure.[120]

B. Cost of Debt

The Company proposes a 6.60 percent cost of debt, to which RUCO agrees.[121]

---

117 *Id.* at 32
118 Exh. RUCO-7 at 43 (Rigsby direct).
119 Exh. UNSG-27 at 10 (Grant direct).
120 Exh. RUCO-7 at 42 (Rigsby direct).
121 Exh. RUCO-8 at 3 (Rigsby surrebuttal).

C. Cost of Equity

UNSG proposes a return on equity of 11 percent.[122] RUCO's proposed return on equity is 9.84 percent.[123] Both parties based their proposals on results obtained from the Discounted Cash Flow ("DCF") and Capital Asset Pricing Model ("CAPM") methodologies. However, there are important differences in the approaches RUCO and the Company took to implementing the models, producing their differing results.

First, the Company utilized a multi-stage DCF analysis, where RUCO used a single-stage analysis. Company witness Grant believes that the single stage model cannot be applied to companies having expected short-term growth rates that are significantly higher or lower than their long-term growth potential.[124] However, the growth rate component RUCO witness Rigsby used in his single-stage model already takes into consideration both short-term (i.e. 2007-2008) and long-term (i.e. 2010 to 2012) growth projections, that are specific to the local distribution companies ("LDC") used in Mr. Rigsby's proxy.[125] The long-term growth rate referred to by Mr. Grant, which was used in his multi-stage DCF model, assumes a long-term growth rate for LDCs that will be very close to an inflation-adjusted growth rate of all goods and services produced by labor and property in the US[126] into perpetuity. This assumption that utility long-term growth rates will closely mirror national Gross Domestic Product growth into perpetuity is suspect.[127] Furthermore, as pointed out in the surrebuttal testimony of Mr. Rigsby, FERC requires that the growth components of the multi-stage

122 Exh. UNSG-28 at 29 (Grant rebuttal).
123 Exh. RUCO-8 at 2 (Rigsby surrebuttal).
124 Exh. UNSG-27 at 13 (Grant direct).
125 Exh. RUCO-7 at 46 (Rigsby direct).
126 *Id.*
127 *Id.*

model be weighted in such a way that more emphasis is placed on the short-term (i.e. 5-year estimates) as opposed to long-term estimates that are calculated into perpetuity.[128] The rationale for the FERC's weighting requirement is "that short-term growth rates are more predictable, and thus deserve a higher weighting than long term growth rate projections." Thus the FERC places more weight on the growth estimates used by Mr. Rigsby in his constant growth DCF model.

Using Mr. Grant's inputs and estimates (but excluding Cascade Natural Gas Corporation, whose price is being driven by a merger with MDU Resources Group, Inc.) a single-stage model would produce a mean average estimate of 8.21 percent, which is 53 basis points below Mr. Rigsby's 8.74 percent estimate.[129] Further, there were changes to stock prices of proxy companies between the filing of the Company's direct testimony and RUCO's direct testimony.[130] Using those updated stock prices would cause the single-stage model to produce an estimate of 7.65 percent, down another 56 basis points from the 8.21 percent.[131] Thus, a single stage model using updated stock prices, while holding Mr. Grant's other DCF component estimates constant (with the exception of Cascade), would produce a lower single-stage DCF estimate than the one Mr. Rigsby calculated. It is clear that Mr. Rigsby's growth rate inputs do include a measure of long-term growth rates.

Second, the witnesses used a different proxy for the market rate of return in their CAPM analyses. Mr. Rigsby used both geometric and arithmetic means of historical

---

[128] Exh. RUCO-8 at 9 (Rigsby surrebuttal).
[129] Exh. RUCO-7 at 47 (Rigsby direct).
[130] *Id.* at 48-49.
[131] *Id.* at 49-50.

returns.[132] Mr. Grant relied solely on the arithmetic mean of historical returns as the proxy for the market rate of return.[133] Information on both the geometric and arithmetic means is widely available to the investment community, and it is therefore appropriate to use both means in CAPM analysis.[134] Further, the geometric mean provides a truer picture of the effects of compounding on the value of an investment when return variability exists, and therefore it is an important metric to include.[135]

Third, Mr. Rigsby used updated betas for the proxy companies in his CAPM analysis.[136] The mean average of Value Line betas used by Mr. Grant (excluding Cascade Natural Gas Corporation) was .81, as opposed to Mr. Rigsby's average beta of .87.[137]

Finally, RUCO and the Company disagree on whether customer growth is a factor that should result in an increased return on equity. The Company claims that customer growth is a negative factor that presents additional risks for which the Company must be compensated.[138] However, high growth in Arizona is one of Unisource's biggest selling points to potential investors. For example, the Chairman's Letter to Shareholders in Unisource's 2005 Annual Report presents high growth in a positive light, bragging that UNSG "enjoyed" growth in excess of 4 percent. [139] Further,

---

132 *Id.* at 28.
133 *Id.* at 50.
134 Exh. RUCO-8 at 12 (Rigsby surrebuttal).
135 *Id.* at 12.
136 Exh. RUCO-7 at 51 (Rigsby direct).
137 *Id.* at 51.
138 Exh. UNSG-27 at 22 (Grant direct).
139 Exh. RUCO-8 at 11 and at Exhibit E at 3 (Rigsby surrebuttal).

Mr. Grant himself attached a Standard & Poors report to his testimony that touts that high customer growth "could lead to an LDC's greater profitability or rate stability."[140]

RUCO has not ignored the demand that customer growth plays on the Company's need to invest additional capital. As the Company itself notes, the hypothetical capital structure that UNSG has proposed (and RUCO supports) is appropriate precisely because of the large capital expenditures it will need to make to serve its customers.[141]

D. Fair Value Rate of Return

Based on a 50-50 capital structure, a 6.60 percent cost of debt and a 9.84 percent cost of equity, RUCO recommends a weighted average cost of capital ("WACC") of 8.22 percent.[142] The Company, using all the same inputs except its proposed cost of equity of 11 percent, proposes a WACC of 8.80 percent.[143] In its initial filing, the Company proposed that the WACC be applied to its original cost rate base ("OCRB") to determine a required operating income of $14,223,179.[144] In its rebuttal testimony, however, the Company indicated it believed its WACC should be applied to its fair value rate base ("FVRB").[145] The Company's new position was based in its understanding of a recent memorandum decision from the Arizona Court of Appeals in a matter involving Chaparral City Water Company.[146] The Company noted, however, that

---

140 Exh. UNSG-28 at Exh. KCG-12 at 5 (Grant rebuttal).
141 Exh. UNSG-27 at 10 (Grant direct).
142 Exh. RUCO-8 at surrebuttal schedule WAR-1 (Rigsby surrebuttal).
143 Exh. UNSG-27 at 25 (Grant direct).
144 Exh. UNSG-10 at schedule A-1 (Revised Application Schedules).
145 Exh. UNSG-2 at 8 (Pignatelli rebuttal).
146 *Chaparral City Water Co. v. Ariz. Corp. Comm'n*, 1 CA-CC 05-0002 (Ariz. App. Feb. 13, 2007).

it did not intend this change in methodology to result in a required operating income any higher than the $14,223,179 it originally requested.[147]

Though the limitation on the Company's request to its original dollar figure may appear to make the matter irrelevant, the difference between applying the WACC to the OCRB or the FVRB could be significant. To the extent the Commission adopts any of the Staff or intervenor adjustments to the Company's rate request, the benefit of those adjustments would be lost if the Commission applies the WACC to the FVRB.

RUCO objects to the application of the WACC to the FVRB. The decision in the Chaparral City matter was merely a memorandum decision, which cannot be regarded as precedent or cited.[148] Further, the Court in that case confirmed that the Commission is not required to apply a WACC to the FVRB.[149]

The Company's change of position regarding application of the WACC to the FVRB in its rebuttal testimony was untimely, and should be rejected for that reason alone. If the Company has requested in its direct testimony that the WACC be applied to the FVRB, RUCO's analysis of both the cost of capital as well as the Reconstruction Cost New Depreciated ("RCND") rate base would have been entirely different, and most likely produced different conclusions.[150] However, RUCO had insufficient opportunity to conduct discovery and analysis on the Company's new position between the filing of the Company's rebuttal testimony and the filing of RUCO's surrebuttal testimony 13

---

[147] Exh. UNSG-2 at 8 (Pignatelli rebuttal).
[148] Rule 28, Ariz. Rules of Civil App. Procedure.
[149] *Chaparral City Water*, at ¶ 17.
[150] Exh. RUCO-6 at 4 (Diaz Cortez surrebuttal).

business days later.[151] The Commission's rules appropriately recognize that substantial revisions to a utility's rate application are prejudicial and provide a method of relief.[152]

The application of the WACC to the OCRB is appropriate, because the entire concept of cost of capital is designed to apply to an original cost rate base.[153] The "excess" of FVRB over OCRB is not financed with investor-supplied funds, thus there is no link between the WACC (derived from the liabilities/owner's equity side of the balance sheet, using book values of the capital structure components) and the FVRB.[154]

V. Changes in Purchased Gas Adjustor

The Company has proposed several modifications to its purchased gas adjustor ("PGA"). RUCO agrees with the proposals to collect all gas costs through the PGA, to make the threshold for requesting a surcharge symmetrical with the threshold to request a surcredit, and that the Commission permit timely and adequate PGA surcharges so that the Company can eliminate undercollected balances over a reasonable period.[155] RUCO and the Company likewise agree that the PGA bandwidth should be increased from $0.10 per therm to $0.20 per therm.[156]

---

151 *Id.* at 5.

152 *See* A.A.C. R14-2-103(B)(11)(e). The method of relief provided for in the rule (extension of the time within which the Commission must decide the matter) was not an appropriate remedy in this instance. The time for parties to the Chaparral City matter to file a Petition for Review with the Arizona Supreme Court was extended to May 14, 2007, nearly six weeks after RUCO's surrebuttal testimony was due to be filed, and almost three week after the hearing in this matter had concluded. RUCO did not believe a delay in the current proceeding pending final resolution of the Chaparral City matter was appropriate, especially in light of the Company's limitation of its request to the amount sought in its direct testimony.

153 Exh. S-37 at 8 (Parcell surrebuttal).

154 *Id.* at 8-9.

155 Exh. RUCO-5 at 22-27 (Diaz Cortez direct).

156 Exh. UNSG-5 at 4 (Hutchens rebuttal).

RUCO further agrees that the interest rate to be applied to under/over-collected balances should be LIBOR plus 1.5 percent.[157] However, RUCO does not agree with the Company's proposal to use a higher interest rate (its authorized weighted cost of capital) when the balances exceed two times the $6.24 million threshold. Given RUCO's agreement to double the bandwidth and to provide for timely recovery of any necessary surcharges, the Company will no longer be burdened with large under-collected balances, and this modification will be unnecessary.[158]

RUCO opposes a predetermination that any debt the Company incurs solely to support under-collected PGA balances would not be recognized in the Company's capital structure for purposes of setting rates. As discussed above, with the changes to the PGA that RUCO supports, accruing large under-collected balances would be less likely, and thus the likelihood of debt issuances for the sole purpose of financing under-collected PGA balances is slim. Further, it would be inappropriate to pre-determine ratemaking treatment of any such debt prior to the rate case in which the matter arose.[159]

VI. Rate Design/Decoupling Mechanism

Currently, the Company receives 26 percent of its total revenue through its fixed monthly charges, and the remainder through its commodity charges.[160] The Company's rate design proposal would allow it to recover 51 percent of its total revenue through the

---

157 Exh. RUCO-5 at 24 (Diaz Cortez direct).
158 *Id.* at 25.
159 *Id.* at 26.
160 *Id.* at 28.

fixed charges.[161] The Company argues that this large shift is necessary so that it can recover its authorized margin in spite of weather, conservation and declining sales.

RUCO opposes this large of a shift in recovery through the fixed charges. The Company's proposal shifts more revenue to its fixed charge than it is asking for as a rate increase. The Company's total requested revenue increase is approximately $10 million per year.[162] However, its proposed rate design would result in an additional $16.4 million of recovery through fixed monthly charges.[163] In order to achieve this recovery, the Company proposes to decrease its commodity rate from 30 cents per therm to 18 cents per therm (recovering $6.3 million less through the commodity charge than under current rates).[164] As a result of this decrease in commodity charges, high users would see their bills decrease, while the lowest users would experience the highest percentage increase in their bills.[165]

While RUCO disagrees with the Company's extreme shifting of costs to the fixed charges, it does believe some level of shifting is appropriate. RUCO's proposed rate design therefore would result in 36 percent of the Company's revenue being recovered through fixed monthly charges.[166] This is a fair middle-ground position between the Company's 56 percent request and the Staff's 30 percent proposal.[167]

The Company also proposes to have different fixed charges in the summer and winter months. Its proposal is to have a higher charge ($20 for residential customers) in the "summer" months (April – November), and a lower charge ($11 for residential

161 *Id.*
162 Tr. at 475 (Erdwurm).
163 *Id.* at 475-76.
164 *Id.* at 476.
165 Id. at 477; Exh. RUCO-5 at 29 (Diaz Cortez direct).
166 Exh. RUCO-5 at 34 (Diaz Cortez direct).
167 *See* Tr. at 822 (R. Smith).

customers) from December through March. The Company indicated it proposed this approach because it believes customers would prefer their bills to be more levelized over the seasons, as would result from this rate design feature.[168] The Company already offers an optional levelized billing program for customers who prefer to receive a bill of a predictable amount rather than to have a bill that includes a price signal of the cost of additional usage.[169] RUCO opposes the Company's proposal to differentiate the monthly service charge in the winter and summer months. The choice of whether a customer prefers a levelized bill should be left with the customer, rather than being imposed across-the-board by a Commission-imposed rate design. If the Company believes additional customers desire levelized billing, it should concentrate greater efforts on publicizing the availability of its levelized billing program as an option for customers who desire it.[170]

The Company has also proposed that a throughput adjustor mechanism ("TAM") be adopted. The TAM would true up customer usage to match billing determinants authorized in this rate case. In other words, customers would pay for a fixed amount of consumption, regardless of how much they actually consumed.[171] The Company offered two reasons for its proposal. First, the Company claims it needs the TAM to eliminate the uncertainty of revenue recovery.[172] Second, the Company claimed that the TAM proposal was an attempt to move away from the use of a historic test year.[173] Neither reason justifies adoption of the TAM.

---

168 Tr. at 452 (Erdwurm).
169 Exh. RUCO-5 at 30 (Diaz Cortez direct).
170 *Id.*
171 *Id.*
172 Exh. UNSG-18 at 11 (Voge direct, adopted by Erdwurm).
173 Tr. at 82-84 (Pignatelli).

First, the mechanism would entirely remove any risk associated with revenue recovery.[174] This would include risks of revenue recovery from conservation, and from variations in weather.[175] The Company acknowledges that variations in consumption are primarily due to variations in weather and not conservation.[176] However, variations in consumption due to weather are accounted for by the process whereby actual test year revenues are adjusted to the level they would be with normal weather.[177] Thus, the existing rate-setting process already has a remedy for the matter the Company is attempting to address. Further, the Company testified that its commitment to support conservation is not dependent on whether the Commission approves the TAM.[178]

Second, it is not appropriate for the Commission to guarantee a utility a certain level of revenues. Regulation is required to provide a public utility the opportunity to recover its revenue requirement. As a public utility, UNSG already has an exclusive service territory and a captive customer base, which places the Company at a low business risk.[179] Further, the Commission compensates the Company for its business and financial risk through an authorized rate of return.[180] There is no need to implement a TAM to address risks of revenue recovery.

Third, the Commission should not approve the TAM in an attempt to stray from the use of a historic test year. The use of a historic test year to establish a utility's rates

174 Exh. RUCO-5 at 31 (Diaz Cortez).
175 Tr. at 479-81 (Erdwurm).
176 Tr. at 481-83 (Erdwurm).
177 Tr. at 705-06 (Diaz Cortez).
178 Tr. at 480-81 (Erdwurm).
179 Exh. RUCO-5 at 31 (Diaz Cortez direct).
180 *Id.*

is required by the Commission's Rules and by the State's constitution.[181] It would be inappropriate for the Commission to adopt a mechanism whose purpose is to undermine the constitutionally-required parameters within which the Commission is required to operate.

Fourth, the Commission recently rejected a similar decoupling proposal from Southwest Gas[182] However, Southwest Gas experiences greater decreases in consumption due to conservation than the Company does.[183] Thus, to the extent non-weather decreases in consumption need to be addressed, there is even less of a reason to do so for UNSG than there was for Southwest Gas. Also, in rejecting Southwest Gas' decoupling mechanism, the Commission expressed concern that such a device could "result in disincentives for...customers to undertake conservation efforts."[184] The same could be said of UNSG's proposed TAM. The Commission should likewise decline to adopt it.

VII. Rules and Regulations of Service

The Company has proposed to shorten the period of time customers have to pay their bills before a bill becomes past due and subject to a late fee. Currently, a bill is due 15 days after it is rendered, and late fees can begin to accrue 20 days after the bill is rendered. The Company is proposing that a bill become due, and that a late charge

---

[181] A.A.C. R14-2-103(A)(3)(p); *Simms v. Round Valley Light & Power Co.*, 80 Ariz. 145, 153, 294 P.2d 378, 383 (1956).
[182] Decision No. 68487.
[183] Tr. at 483-84 (Erdwurm).
[184] Decision No. 68487 at 34.

begin, 10 days after a bill is rendered.[185] The Company's proposal is consistent with the minimum requirements of the Commission's rules, but the only advantage to the Company that it could identify for adopting the changes was that it would bring consistency to the three affiliated utilities that are served by the consolidated call center operated by another of the affiliates.[186]

RUCO opposes these changes. The proposed payment dates are so short that a customer could go on vacation and come home to find his gas shut off.[187] Customers have contacted RUCO about the proposed change and expressed their opposition to it.[188] Since gas is a vital service to many customers, a more flexible payment schedule should prevail. Further, the Company is already being compensated (and will continue to be as a result of this proceeding) for the delay between the time bills are rendered and when they are paid as a result of its working capital allowance.[189] Therefore, the Company is not harmed by the current billing terms.[190]

Further, the Company receives no particular benefit from the proposed change. Despite its claim that the shorter payment periods would be consistent with the affiliated electric companies, consistency across the affiliated utilities cannot be fully accomplished. Customer service agents who take calls from UNSG customers are

---

185 Tr. at 421-22 (G. Smith); Exh. UNSG-15 at Exh. GAS-2, pg. 52 (G. Smith direct). The Company also proposes to shorten the time customers have to pay a past-due bill prior to notice of shut-off, from 30 days to 15 days. However, the change propose at Section 10 (C)(3) also changes which date is used to measure from (currently, from the original bill date; as proposed, from the date the bill becomes past-due). The effect of the two changes is to shorten the period between becoming past-due and the issuance of a notice of shut-off by the same 5 days that the period that is proposed to be removed from the time between the bill becoming past due and becoming subject to late fees. *See* Tr. at 421-22 (G. Smith).

186 Tr. at 355 (G. Smith).

187 Exh. RUCO-5 at 35 (Diaz Cortez direct).

188 Exh. RUCO-6 at 19 (Diaz Cortez surrebuttal).

189 Exh. RUCO-5 at 36 (Diaz Cortez direct); Tr. at 664 (Diaz Cortez).

190 Exh. RUCO-6 at 19 (Diaz Cortez surrebuttal).

required to have additional training in gas matters that goes beyond the training required of agents who take calls for the affiliated electric utilities.[191] Therefore, even with the proposed change, call center agents would have to deal with the different issues faced by gas and electric customers.

Changing the payment schedule would provide at most a *de minimus* benefit to the Company. Further, the Company is not harmed by the current schedule. However, customers perceive that they are harmed by the proposed change. Therefore, the Commission should not grant the request for the abbreviated billing terms.

CONCLUSION

RUCO recommends that the Commission approve a revenue increase of no more than $2,734,443, based on the above discussion and as reflected in its final schedules. Further, RUCO recommends that the Commission adopt a rate design that recovers no more than 36 percent of the Company's revenue through fixed monthly charges. RUCO also recommends that the Commission reject the Company's TAM proposal, and modify its PGA as discussed above. Finally, the Commission should maintain the Company's current billing terms.

[191] Tr. at 373-74 (G. Smith).